

**STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF TARGETED FINANCIAL EXAMINATION
OF**

**PUBLIC EMPLOYEE BENEFIT AND INSURANCE PROGRAM
a.k.a. Public Employees Health Plan (PEHP)**

OF

SALT LAKE CITY, UTAH

AS OF

JUNE 30, 2003

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May 18, 2004

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Honorable Merwin U. Stewart, Commissioner
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Pursuant to your instructions and in accordance with Utah Code Annotated (UCA) § 49-20-405, a targeted examination was conducted, as of June 30, 2003, of the funds and programs of the

PUBLIC EMPLOYEE BENEFIT AND INSURANCE PROGRAM

of
Salt Lake City, Utah

hereinafter referred to as the "Program." The following targeted examination report is respectfully submitted.

The Program operates under the authority granted by UCA Title 49, Chapter 20. The Program is a division of the Utah Retirement Systems, a quasi, independent agency of the State of Utah, and operates under the name "Public Employee Benefit and Insurance Program." It operates a trust fund to provide group insurance benefits to public employees. The program was originated to provide a mechanism for the state, its educational institutions, and political subdivisions to provide their employees with

group health, dental, medical, disability, life and medical supplement insurance coverage in the most efficient and economical manner.

All employers of the state, its educational institutions, and political subdivisions are eligible to participate in the Program. The Program operates primarily on payments from participating employers. Other sources of revenue are service fees, investment income, gains on the sale of investments, and miscellaneous.

SCOPE OF EXAMINATION

The Program was last examined by the Utah Insurance Department (Department) as of June 30, 1998. During the intervening period between July 1, 1998, and June 30, 2003, the Program was audited annually by a certified public accounting firm. Performance legislative audits were also conducted.

Heavy reliance was placed on the working papers generated by the certified public accounting firm retained by the Program to satisfy the Department's biennially audit requirements as prescribed by UCA § 49-20-405. The major asset and liability balance sheet account working papers as of June 30, 2003, were copied and analyzed to avoid a duplication of work. Before acceptance, tests of the certified public accounting firm's work were conducted.

EXAMINATION FINDINGS

Significant examination findings are stated immediately below:

- The Program is solvent as its total assets of \$183,910,718 exceeded its total liabilities of \$112,560,300 by its reserves for claims contingency of \$71,350,418.
- Assets supporting life insurance benefit reserves, as of June 30, 2003, were invested in short-term investments and treasury notes. The net investment return on these assets was significantly lower than the rate of return used in determining the reserve amount.
- The reported long-term disability benefit reserve covers only future income payments and does not cover future health insurance benefits. The Department's Actuary estimated that this component of the reserve is understated by approximately \$10,600,000.

- The termination rates used to determine the reserve for disabilities beyond the third year were found to be inadequate. The Department's Actuary estimated that this component of the reserve is understated by approximately \$1,700,000.

RECOMMENDATIONS

Significant recommendations, made in conjunction with the above referenced examination findings, are stated immediately below:

- It is recommended that the Program quantify and report in its financial statements a reserve for future long-term disability health insurance benefits.
- It is recommended that the Program document and review modified termination rates underlying long-term disability benefit reserves on a periodic basis.
- It is recommended that the investment strategy and/or any restrictions on the investment of assets supporting reserves be communicated to the actuary retained to perform valuations of liabilities for the Program.

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Program are acknowledged. Mr. Tomasz Serbinowski, ASA, Actuary, representing the Utah Insurance Department, participated in the examination.

Respectfully submitted,

Allen J. Hart, CFE
Examiner-in-Charge, representing the
Utah Insurance Department